



Agree Realty Corp. (ADC)

Updated February 21st, 2024 by Felix Martinez

Key Metrics

Current Price:	\$56	5 Year CAGR Estimate:	13.6%	Market Cap:	\$5.7 B
Fair Value Price:	\$73	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/28/24
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.5%	Dividend Payment Date:	03/14/24
Dividend Yield:	5.2%	5 Year Price Target	\$89	Years Of Dividend Growth:	11
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Agree Realty Corp. (ADC) is an integrated real estate investment trust (REIT) focused on ownership, acquisition, development, and retail property management. Richard Agree founded Agree Development Company in 1971, which is the predecessor to Agree Realty Corporation. Agree has developed over 40 community shopping centers throughout the Midwestern and Southeastern United States. At the end of December 2022, the company owned and operated 1,839 properties located in 48 states, containing approximately 38.1 million square feet of gross leasable space. The company's business objective is to invest in and actively manage a diversified portfolio of retail properties net leased to industry tenants. Agree Realty has a market capitalization of \$5.7 billion, and the company has been paying a growing dividend for eleven consecutive years.

On February 13th, 2024, Agree Realty Corp. reported fourth quarter results for Fiscal Year (FY)2023. In the fourth quarter, the company invested \$199 million in 70 retail net lease properties, completed four development projects, and maintained a balanced balance sheet. Key financial metrics include unchanged net income per share at \$0.44, a 3.4% increase in Core Funds from Operations (Core FFO) per share to \$0.99, and a 5.2% increase in Adjusted Funds from Operations (AFFO) per share to \$1.00. Additionally, the company declared a December monthly dividend of \$0.247 per common share, reflecting a 2.9% year-over-year increase.

For the full year 2023, Agree Realty invested or committed \$1.34 billion in 319 retail net lease properties and initiated 13 development projects. Despite a 7.0% decline in net income per share to \$1.70, Core FFO per share increased by 1.6% to \$3.93, and AFFO per share rose by 3.1% to \$3.95. The company declared dividends of \$2.919 per share, marking a 4.1% year-over-year increase. It raised over \$370 million in gross equity proceeds through its at-the-market equity program, closed on a \$350 million 5.5-year term loan, and ended the year with over \$1.0 billion in total liquidity.

In terms of financial results, net income for Q4 2023 increased by 12.9% to \$44.1 million, and Core FFO and AFFO saw significant increases of 16.8% and 18.8%, respectively. For the full year, net income increased by 12.1%, Core FFO grew by 22.3%, and AFFO saw a substantial 24.2% increase. The company also highlighted its dividend activities, including a 2.9% year-over-year increase in the annualized dividend amount and monthly dividends declared for January and February 2024. Overall, Agree Realty demonstrated strong financial performance and strategic moves throughout 2023, positioning itself for continued success in the real estate market.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO	\$2.18	\$2.39	\$2.54	\$2.72	\$2.85	\$3.08	\$3.23	\$3.58	\$3.87	\$3.93	\$4.08	\$4.96
DPS	\$1.74	\$1.85	\$1.92	\$2.03	\$2.15	\$2.28	\$2.40	\$2.60	\$2.80	\$2.92	\$3.04	\$3.70
Shares¹	15.0	18.0	23.0	28.0	32.0	41.0	52.0	67.0	79.0	95.0	95.0	95.0

Agree Realty has grown AFFO by a compound rate of 6.8% over the past ten years. However, AFFO has increased by 5.8% per year over the past five years. We expect that Agree Realty will continue to grow but at a slightly slower pace of

¹ Share count is in millions.

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4.0% annually for the next five years. Current growth prospects stem from the recent acquisitions announced for the year.

The company has a ten-year dividend growth rate of 5.9%. We predict that Agree Realty will continue to grow its dividend at a rate of 4% for the foreseeable future. However, there is room for more significant increases as the dividend payout ratio is low for a REIT.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/AFFO	13.6	14.0	14.3	18.4	19.1	20.9	23.2	20.8	20.3	18.3	14.3	18.0
Avg. Yld.	5.7%	5.6%	5.4%	4.2%	3.9%	3.7%	3.3%	3.6%	3.7%	4.0%	5.2%	4.2%

Over the past ten years, the company's average price to AFFO ratio has been 18.5x. We believe 18x AFFO is a reasonable valuation multiple. Thus, with shares trading at 14.0x times AFFO, this implies a modest valuation tailwind. Due to the higher average P/AFFO, the dividend yield has slowly decreased over the years. In 2011, the dividend yield was as high as 6.6%. Now Agree Realty's dividend yield is 5.2%, implying moderate overvaluation compared to the past.

Safety, Quality, Competitive Advantage, & Recession Resiliency

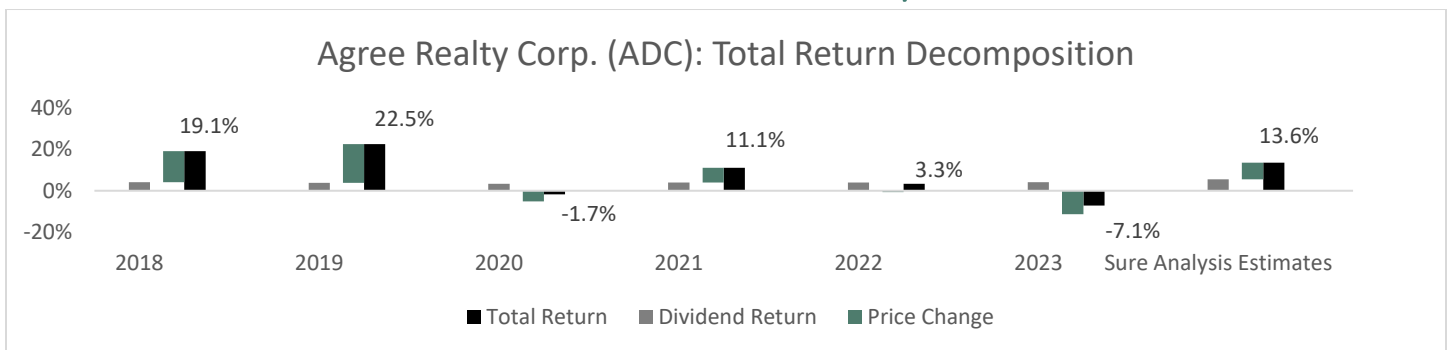
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	78.1%	79.8%	77.4%	75.6%	74.6%	75.4%	74.0%	74.3%	72.6%	72.4%	74%	74%

Agree Realty Corp's most important competitive advantage is the management team. AFFO grew by 5% in 2008 and 11% during the last recession in 2009. During the COVID-19 pandemic, Agree Realty continued to pay out its dividend and increased it by 3% in December. As noted above, Agree Realty increased AFFO by 8.1% in 2022. This speaks volumes regarding Agree Realty's resiliency. Agree Realty also has a solid balance sheet. The company has a BBB credit rating from S&P and a debt-to-equity ratio of 0.5.

Final Thoughts & Recommendation

Agree Realty Corp. is a high-quality company with a relatively high P/AFFO ratio over the past five years. There is minimal risk, considering that Agree Realty has an outstanding balance sheet, and the company was able to go through the COVID-19 pandemic with minimal hiccups. The company is undervalued at today's price, in our view. We estimate a 5-year annual return of 13.6% going forward, stemming from 4.0% growth, a 5.2% dividend yield, and a valuation tailwind. Thus, shares earn a buy rating at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	54	70	92	112	137	187	249	339	430	538
Gross Profit	49	64	83	99	120	164	217	298	378	471
Gross Margin	90.8%	90.9%	90.6%	88.8%	87.6%	87.5%	87.2%	87.9%	87.8%	87.5%
SG&A Exp.	7	7	8	9	12	16	21	25	30	35
D&A Exp.	11	16	23	32	44	59	83	120	167	209
Operating Profit	31	40	52	63	75	103	129	177	214	260
Operating Margin	57.7%	57.3%	56.4%	56.5%	54.9%	54.8%	52.0%	52.2%	49.8%	48.3%
Net Profit	18	39	45	58	58	80	91	122	152	170
Net Margin	34.5%	55.8%	49.3%	52.1%	42.4%	42.7%	36.8%	36.0%	35.5%	31.6%
Free Cash Flow	35	45	62	82	93	127	143	246	362	392
Income Tax	---	---	0	0	1	1	1	2	3	3

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	594	790	1,142	1,495	2,028	2,665	3,886	5,227	6,713	7,775
Cash & Equivalents	5	3	33	51	54	16	6	43	28	11
Accounts Receivable	5	7	12	15	22	27	38	53	66	83
Goodwill & Int. Ass.	47	77	140	195	280	344	474	672	799	854
Total Liabilities	238	336	456	583	790	973	1,360	1,808	2,083	2,575
Accounts Payable	3	3	6	11	21	49	71	70	84	101
Long-Term Debt	222	317	401	520	720	872	1,218	1,688	1,940	2,411
Shareholder's Equity	354	451	683	909	1,236	1,689	2,524	3,243	4,454	5,024
LTD/E Ratio	0.63	0.70	0.59	0.57	0.58	0.52	0.48	0.49	0.42	0.46

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.5%	5.6%	4.7%	4.4%	3.3%	3.4%	2.8%	2.7%	2.6%	2.4%
Return on Equity	5.7%	9.7%	8.0%	7.3%	5.4%	5.5%	4.3%	4.2%	4.0%	3.5%
ROIC	3.6%	5.8%	4.9%	4.6%	3.4%	3.5%	2.9%	2.8%	2.6%	2.4%
Shares Out.	15.0	18.0	23.0	28.0	32.0	41.0	52.0	67.0	79.2	95.4
Revenue/Share	3.58	3.87	3.99	4.03	4.23	4.55	4.74	5.05	5.43	5.63
FCF/Share	2.34	2.47	2.69	2.97	2.88	3.07	2.73	3.67	4.57	4.10

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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